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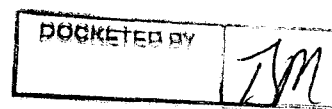
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June 29, 2012

**HAND DELIVERED**

Docket Control  
Arizona Corporation Commission  
1200 W. Washington St.  
Phoenix, AZ 85007

Arizona Corporation Commission  
**DOCKETED**  
JUN 29 2012



Re: ***AEPCO's Quarterly Update on Its Action Plan; Compliance Item in Relation to Decision No. 72055; Docket No. E-01773A-09-0472***

Dear Sir or Madam:

As required by the Final Ordering Paragraph at page 17 of Decision No. 72055, AEPCO submits this quarterly update on the Action Plan which it filed in this Docket on January 27, 2011 (the "Action Plan"). The Action Plan identified several items which have already been completed.

As to the status of items which are ongoing:

1. Under Organization, Staffing and Controls (Action Plan, p. 1, item 1) regarding more frequent internal audits of fuel and energy procurement and management, coal and gas transactions were verified as part of the PPFAC audit commenced in 2011 which is scheduled to be completed in the third quarter of 2012.

2. Under Fuel Supply Management (Action Plan, p. 1, item 2) regarding the plan for reducing coal inventory, this year, approximately 700,000 tons of coal were ordered instead of the 1,150,000 tons which were ordered in previous years.

3. Under Power Transactions (Action Plan, p. 2, item 2, fourth responsive step) regarding the effectiveness of the new PPFAC, an internal audit of the billing unit program is complete and PPFAC audit work is complete. Audit results are expected to be finalized in the third quarter of 2012.

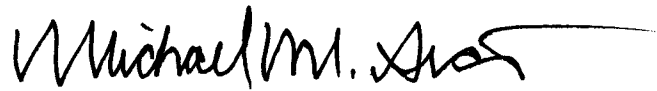
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4. Under Engineering Analysis/Plant Management (Action Plan, p. 3, items 1 and 2), the monitoring and assembly of data concerning Apache Station usage have been completed and the studies are anticipated to be completed by September 30, 2012.

An updated Action Plan matrix reflecting the progress to date on the eight recommendation areas is attached and AEPCO will file its next quarterly update on the Action Plan by September 30, 2012.

Very truly yours,

GALLAGHER & KENNEDY, P.A.

A handwritten signature in black ink, appearing to read "Michael M. Grant", with a long horizontal flourish extending to the right.

By:

Michael M. Grant

MMG/plp  
10421-59/3076133

Attachment

**Original and 13 copies** filed with Docket Control this 29<sup>th</sup> day of June, 2012.

# Arizona Electric Power Cooperative, Inc.

## Action Plan/Prudence Review Recommendations

### Updated – June 29, 2012

<u>Recommendation</u>	<u>Responsive Steps</u>	<u>Timetable</u>	<u>Status</u>
<b>Organization, Staffing and Controls</b>  1. More frequent internal audits of fuel and energy procurement and management.	A fuel and energy procurement and management audit commenced in 2011 is scheduled for completion in the third quarter of 2012.	Plan Complete	Ongoing
<b>Fuel Contracting</b>  1. Future solicitations for forward gas purchases should be directed to additional suppliers.	ISD agreements have been developed with additional suppliers to expand solicitation group.	Plan Complete	Action Completed
<b>Fuel Supply Management</b>  1. Undertake formal process to determine physical vs. book inventory differences.  2. Develop plan for reducing coal inventory.  3. Create performance measures for gas traders.	A team has been formed to determine the cause of differences and necessary corrective steps.  AEP CO ordered approximately 700,000 tons in 2012 instead of the 1,150,000 tons that it has ordered in previous years.  AEP CO has completed work with ACES to develop and implement.	Plan Complete  Plan Ongoing  Plan Complete	Action Completed  Action Completed  Action Completed

<u><b>Recommendation</b></u>	<u><b>Responsive Steps</b></u>	<u><b>Timetable</b></u>	<u><b>Status</b></u>
<b>Gas Hedging</b> 1. Adopt program for measurement of hedging program results. 2. Periodically, internal audit to review processes and systems to track transactions.	Consulted with ACES to develop.  Internal audit will address and implement recommendation in the 2011 internal audit plan.	Plan Complete  Plan Complete	Action Completed  Action Completed
<b>Power Transactions</b> 1. Require PRMs to provide timely pre-schedules. 2. Take steps to minimize and eliminate errors in relation to the effectiveness of new PPFAC.	Exhibit B-1 to Schedule B of the PRM contracts approved by the Commission in Decision No. 72055, p. 17, ll. 9-10 has such requirements.  <ul style="list-style-type: none"> <li>Internal audit completed and changes instituted to address errors in 2007-2008.</li> <li>A PPFAC Plan for Administration was developed and filed with Docket Control on January 20, 2011.</li> <li>Written PPFAC processes and procedures are being developed.</li> <li>A clause audit will be conducted in 2011 and more frequent reviews of the PPFAC will be conducted.</li> </ul>	Plan Complete  Plan Complete  Plan Complete  Plan Complete  Plan Complete	Action Completed  Action Completed  Action Completed  Action Completed  Billing Unit Program audit work completed. Initial findings reviewed with appropriate departments. Audit results to be finalized in 3 <sup>rd</sup> Qtr., 2012.

<u><b>Recommendation</b></u>	<u><b>Responsive Steps</b></u>	<u><b>Timetable</b></u>	<u><b>Status</b></u>
<b>Power Transactions (con't)</b>			PPFAC audit work completed. Initial findings reviewed with appropriate departments. Audit results to be finalized in 3 <sup>rd</sup> Qtr., 2012.
<b>Engineering Analysis/ Plant Management</b> <ol style="list-style-type: none"> <li>1. Conduct a study of Apache's future role and how it relates to member needs for future power.</li> <li>2. Include in Apache study rate impact assessment of known or pending EPA rulemakings or regulatory actions and provide mitigation recommendations on rate exposure (Decision No. 72055; p. 18, ll. 1-7.</li> </ol>	<ul style="list-style-type: none"> <li>• Monitor and assemble data concerning Apache usage in 2011 under the new power requirements contracts.</li> <li>• Complete study of Apache role in relation to member needs.</li> </ul> <p>Will be included in study of Apache's future role.</p>	<p>January 1, 2011 through March 31, 2012</p> <p>September 30, 2012</p> <p>September 30, 2012</p>	<p>Action Completed</p> <p>Pending – Study to be prepared and completed in 3<sup>rd</sup> Qtr., 2012.</p> <p>Pending – Environmental Division working on drafting a report to respond to this requirement. Study to be completed in 3<sup>rd</sup> Qtr., 2012.</p>

<u>Recommendation</u>	<u>Responsive Steps</u>	<u>Timetable</u>	<u>Status</u>
<b>Engineering Analysis/ Plant Management (con't)</b>  3. Examine methods for more structured/formal outage planning and management.  4. AEPCO should examine root causes of trips from personnel errors.	Summary Outage Plans, as recommended, will be prepared 5-6 months prior to an outage and periodically updated.	Plan Complete	Action Completed
	<ul style="list-style-type: none"> <li>Two individuals (instead of one) are permanently assigned to review and report on all large equipment failures and forced outages on coal- and gas-fired units.</li> </ul>	Plan Complete	Action Completed
	<ul style="list-style-type: none"> <li>The report will include statements from the trip originator, control room operator and the operations manager as well as recommendations for problem avoidance.</li> </ul>	Plan Complete	Action Completed
	<ul style="list-style-type: none"> <li>The report will be reviewed to detect specific trends/problem areas to address.</li> </ul>	Plan Complete	Action Completed
	<ul style="list-style-type: none"> <li>An additional training program through GPiLEARN has commenced to better train employees to anticipate and avoid problems.</li> </ul>	Plan Complete	Action Completed
<b>PPFAC</b>  1. Examine more current PPFAC recovery method.	AEPCO recommended that the "efficacy" provision of the 2005 rate decision should be continued to address recovery issues, should they arise, in the future. The Commission approved this request in Decision No. 72055, p. 17, ll. 15-18.	Plan Complete	Action Completed

<u>Recommendation</u>	<u>Responsive Steps</u>	<u>Timetable</u>	<u>Status</u>
<p><b>PPFAC (con't)</b></p> <p>2. AEPCO should propose a surcharge plan for closing the old FPPAC balances.</p>	<p>AEPCO recommended a surcharge close-out plan in Mr. Pierson's rejoinder testimony; it was approved by the Commission in Decision No. 72055; and the Temporary PPFAC Rider No. 1 to close out old balances was filed December 20, 2010 with an effective date of January 1, 2011.</p>	<p>Plan Complete</p>	<p>Action Completed</p>